

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 JUSE-00 PA-01

PRS-01 /091 W

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R 220012Z JAN 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 1411

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E.O. 11652: N/A

TAGS: ERNG, RP

SUBJECT: OIL PRODUCT PRICES GO UP

1. SUMMARY: GOP HAS AUTHORIZED PRICE INCREASES FOR NINE OIL PRODUCTS. THESE ARE THE FIRST INCREASES GRANTED SINCE THE PESO DEVALUED LAST JULY 1975 AND OPEC RAISED CRUDE PRICES ON OCTOBER 1, 1975. A SIGNIFICANT FACTOR IN DECISION WAS THE GOP'S NEED FOR THE INCREASED TAX REVENUES TIED TO THE PRICE INCREASE. ALSO INFLUENTIAL PERHAPS WAS A POIGNANT PLEA TO THE PRESIDENT BY PRIVATE SECTOR COMPANIES FOR RELIEF ACCOMPANIED BY VEILED THREAT OF FUTURE PRODUCT CUTOFFS. WHILE EXTENSIVE HEARINGS WERE HELD BY THE OIL INDUSTRY COMMISSION, IT IS FELT THE FINAL DECISION ON TIMING AND AMOUNT OF INCREASES WAS MADE OR GREATLY INFLUENCED BY THE PHILIPPINE NATIONAL OIL COMPANY. THIS AGAIN CONFIRMS PNOC PRESIDENT GERONIMO VELASCO'S INCREASING INFLUENCE OVER ALL ASPECTS OF THE PETROLEUM INDUSTRY THROUGH HIS DUAL ROLE OF OPERATOR AND REGULATOR. END SUMMARY.

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2. THE OIL INDUSTRY COMMISSION (OIC) APPROVED JANUARY 15

AN INCREASE IN THE PRICES OF NINE OIL PRODUCTS BY AN AVERAGE OF 15 CENTAVOS A LITER. THE PRODUCTS ARE REGULAR AND PREMIUM GASOLINE, COOKING GAS (LPG), KEROSENE, JET FUEL, DIESEL AND FUEL OIL, THINNERS/SOLVENTS, AND ASPHALTS. PRICE INCREASES FOR LUBE OILS AND GREASES ARE STILL PENDING. THE PRICE INCREASE IS MADE UP OF THREE ELEMENTS: 10.8 CENTAVOS TO THE OIL COMPANIES, 1.2 CENTAVOS TO BE ADDED TO THE GOVERNMENT'S SPECIAL FUND, AND 3 CENTAVOS TO BE ADDED TO SPECIFIC TAXES. THE HIGHEST PROPORTIONAL INCREASE CAME IN GASOLINE WITH PREMIUM GOING FROM U.S. 61 CENTS/GAL. TO U.S. 70.6 CENTS/GAL.

3. THE PRICE INCREASES HAVE BEEN PENDING FOR SOME TIME. OIC STARTED HEARINGS IN EARLY OCTOBER 1975 ON PETITIONS BY CALTEX, MOBILE, GETTY, AND SHELL FOR INCREASES. THE PRINCIPAL JUSTIFICATION FOR THE PRICE INCREASES WAS THE HIGHER CRUDE COSTS RESULTING FROM THE PESO DEVALUATION IN RELATION TO THE DOLLAR LAST JULY. THE OPEC INSPIRED CRUDE PRICE INCREASES OF OCTOBER 1, 1975, AND THE HIGHER CUSTOMS DUTIES RESULTING FROM BOTH OF ABOVE. ALL LOCAL OIL COMPANIES, INCLUDING THE GOVERNMENT OWNED PHILIPPINE NATIONAL OIL COMPANY (PNOC) SUFFERED OPERATIONAL LOSSES IN 1975.

4. THE FOUR PRIVATE OIL COMPANIES PETITIONED FOR THE FOLLOWING AVERAGE PRICE INCREASES: CALTEX 13.2 CENTAVOS/LITER, MOBILE 16 CENTAVOS/LITER, GETTY 12.5 CENTAVOS/LITER, SHELL 12.6 CENTAVOS/LITER, OR A WEIGHTED AVERAGE PRICE INCREASE FOR ALL FOUR COMPANIES OF 13.7 CENTAVOS/LITER. A WHOLE SERIES OF HEARINGS WERE CONDUCTED LASTING OVER THREE MONTHS WHERE OIL COMPANIES AND OPPOSING CONSUMER INTERESTS GROUPS PRESENTED THEIR CASES.

5. WHILE THE PRICE INCREASES WERE INEVITABLE, JUSTIFIED AS THEY WERE BY COST INCREASES TO THE OIL COMPANIES, THE TIMING AND AMOUNT WERE AN EXERCISE IN GOP PUBLIC RELATIONS.

A GREAT DEAL OF MEDIA COVERAGE WAS GIVEN TO THE OPPOSITOR'S ORGANIZATIONS, AND WHEN THE INCREASE FINALLY CAME DOWN, LIMITED OFFICIAL USE

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IT WAS THE AMOUNT REQUESTED BY GOVERNMENT OWNED PETROPHIL (MARKETING ARM OF PNOC), AND LESS THAN REQUESTED BY ANY OF THE FOUR MAJORS. THE MESSAGE WAS CLEAR THAT WHILE INCREASES WERE ULTIMATELY NECESSARY, THE GOP WAS HOLDING THE LINE AGAINST THE MULTINATIONALS.

6. PETROPHIL DID NOT PETITION FOR A PRICE INCREASE UNTIL LAST WEEK WHEN IT ASKED FOR AN AVERAGE PRICE INCREASE OF

10.9 CENTAVOS/LITER. THE DAY PETROPHIL COMPLETED ITS TESTIMONY BEFORE THE OIC, THE COMMISSION GRANTED THE 10.8 CENTAVO PRICE INCREASE TO THE OIL INDUSTRIES. PNOC EXECUTIVE SECRETARY DEL ROSARIO PREDICTED ACCURATELY BOTH THE AMOUNT AND TIMING OF THE PRICE INCREASE WHEN DISCUSSING OIC HEARINGS WITH EMBOFF IN LATE NOVEMBER. HE SAID AT THAT TIME PRICE INCREASE WOULD ULTIMATELY BE DECIDED BY THE PNOC AND WOULD NOT BE THE RESULT OF OIC HEARINGS. THE HEARINGS WERE NECESSARY ONLY TO PREPARE THE PUBLIC FOR THE INEVITABLE.

7. BOTH CALTEX AND MOBILE REPRESENTATIVES SAID THEIR COMPANIES COULD LIVE WITH THE INCREASE GRANTED. THE MOBILE REP EVEN SAID THE INDUSTRY WOULD AGAIN BE IN A PROFITABLE SITUATION ON CURRENT OPERATIONS, A POINT THE CALTEX REP WOULD NOT CONCEDE. BOTH FIRMS ARE WORRIED ABOUT EFFECT OF PENDING PESO DEVALUATION AND/OR PROJECTED OPEC CRUDE PRICE INCREASES IN JUNE 1976 AS THERE IS HISTORICALLY A 6 MONTH LAG FOR PRICE RELIEF. AT LEAST PARTIALLY RESPONSIBLE FOR THE PRICE INCREASE AT THIS TIME (ACCORDING TO ROBER WALES, PRESIDENT, MOBILE OIL PHIL.) WAS A LETTER SENT BY THE OIL INDUSTRY TO PRESIDENT MARCOS POINTING OUT THAT THE INDUSTRY'S LOCAL BORROWINGS WERE AT A DANGEROUSLY HIGH LEVEL (MOBIL'S LOCAL DEBT AT END OF 1975 WAS 105 MILLION PESOS COMPARED TO 5 MILLION PESOS FOR 1974 FOR INSTANCE) AND THAT LOCAL BANKS WERE BEGINNING TO LOOK CLOSELY AT THEIR BALANCE SHEETS AND WERE ASKING WHEN PRICE RELIEF WAS EXPECTED. THE LETTER POINTED OUT THAT PARENT COMPANIES WERE NOT WILLING TO STAND BEHIND THEIR LOCAL

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 1412

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AFFILIATES' LOCAL DEBTS AND WERE NOT GOING TO PUT THEIR OWN MONEY INTO A CONTINUALLY LOSING MARKET. IMPLICIT IN THE LETTER ACCORDING TO MR. WALES WAS THAT IF CREDIT SOURCES WRE NOT AVAILABLE, THE MAJORS' ABILITY TO CONTINUE TO SUPPLY THE PHILIPPINE MARKET WOULD BE JEOPARDIZED.

8. ANOTHER EQUALLY STRONG REASON FOR GRANTING THE INCREASE NOW IS THAT PETROPHIL'S LOSSES ARE HIGHER THAN ANY OF THE OTHER FIRMS; SOME ESTIMATES PUT THEM AT 15 MILLION PESOS PER MONTH SINCE OCTOBER 1 AND AROUND 100 MILLION PESOS FOR 1975. WITH THE GOP FACING A LARGE INTERNAL BUDGET DEFICIT IT CANNOT CONTINUE TO SUBSIDIZE PNOC TO SUCH AN EXTENT SO PETROPHIL ITSELF NEEDED RELIEF. ALSO, INCLUDED IN THE PRICE INCREASE AS NOTED ABOVE IS A 3 CENTAVO/LITER ADDITIONAL SPECIFIC TAX GOING DIRECTLY INTO THE GENERAL FUND, ESTIMATED TO GENERATE AROUND 150 MILLION PESOS THROUGH THE BALANCE OF THIS FISCAL YEAR, PLUS 1.2 CENTAVOS/LITER ADDITIONAL TO GO TO THE SPECIAL FUND(APPROXIMATELY 60 MILLION PESOS ADDED REVENUES) WHICH IS USED PRIMARILY TO FINANCE PNOC
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SPECIAL PROJECTS SUCH AS THE PETROLEUM INSTITUTE, ACQUISITION FOR PNOC SUBSIDIARIES, PETROLEUM EXPLORATION, ENERGY DIVERSIFICATION STUDIES, AND THE NEW ENERGY CONSERVATION PROGRAM HEADQUARTERED IN PNOC.

9. COMMENT: THIS OIL PRICE INREASE DECISION IS BUT ANOTHER INDICATION OF PNOC'S INCREASING CONTROL OVER THE OIL INDUSTRY IN THE PHILIPPINES. ANOTHER RECENT EXAMPLE IS A LETTER OF INSTRUCTION FROM MALACANANG DATED JAN. 9 WHICH STATES THAT ONLY PNOC OR ENTITIES DULY AUTHORIZED BY PNOC MAY IMPORT DUTY-FREE LIQUIFIED PETROLEUM GAS AND THAT ALL REFINED PETROLEUM PRODUCT IMPORTS MUST FIRST BE CLEARED BY PNOC. THIS AUTHORITY PREVIOUSLY RESTED WITH THE OIC. PNOC HAS UNOFFICIALLY ESTABLISHED THAT IT PLANS TO CONTROL AT LEASE 60 PERCENT OF CRUDE OIL IMPORTS THROUGH GOVERNMENT TO GOVERNMENT AND COMMERCIAL CONTRACTS AS ITS CAPACITY TO MANAGE THAT PROGRAM PERMITS. PNOC WAS RECENTLY GIVEN CONTROL OVER EXPLORATION, DEVELOP-

MENT AND PRICING IN THE COAL INDUSTRY. PD 782 WHICH
REQUIRES OIL EXPLORATION COMPANIES TO ENTER SERVICE
CONTRACTS WITH THE PETROLEUM BOARD (READ PNOC AS BOTH
ARE HEADED BY GERONIMO VALASCO) BY AUGUST 1976 IS BEING
ACTIVELY IMPLEMENTED. SOURCES SAY ONLY 4 TO 5 OF THE
43 LOCAL OIL EXPLORATION COMPANIES WILL SURVIVE PD 782,
WHITH THE CONSESSIONS OF THE OTHERS REVERTING TO THE
GOVERNMENT, AND THUS TO PNOC. PNOC'S ROLE AS SECRETARIAT
OF THE NEWLY FORMED ENERGY CONSERVATION MOVEMENT (ENERCON)
INSERTS IT INTO ALL ASPECTS OF ENERGY USE AND
POLICY AND ULTIMATELY CONTROL OVER BOTH. ALL THIS IN
ITSELF IS NOT NECESSARILY BAD, AS IT BRINGS GOVERNMENT
FOCUS ON A CRITICAL AND DIFFICULT-TO-MANAGE INDUSTRY.
WITH THE PHILIPPINE OIL BILL FOR 1976 PROJECTED TO BE
\$1 BILLION SOME CENTRAL DIRECTION IS NEEDED TO CONTROL
IT. HOWEVER, WITH GERONIMO VELASCO'S KNOWN PENCHANCE
FOR SEEKING AND USING POWER IN HIS OWN INTERESTS,
PNOC'S EXPANDING INFLUENCE BEARS CLOSE SCRUTINY.
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